

# **CITY OF ROGERS CITY**

**Financial Report  
(Including supplemental information)  
For the Fiscal Year Ended June 30, 2005**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF ROGERS CITY</b>	County <b>PRESQUE ISLE</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/31/05</b>	Date Accountant Report Submitted to State: <b>12/15/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>J.W. KIELISZEWSKI CPA, PC</b>			
Street Address <b>476 NORTH THIRD ST</b>		City <b>ROGERS CITY</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49779</b>	Date <b>12/15/05</b>

# CITY OF ROGERS CITY

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## CITY OF ROGERS CITY

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City Council Administrative Staff  
June 30, 2005

### The Honorable City Council

<b>MAYOR</b>	Beach Hall
<b>MAYOR PRO-TEM</b>	James Sinclair
<b>COUNCIL MEMBERS</b>	Karl Heidemann
	Patrick Lamb
	Gary Nowak

### The Administrative Staff

<b>CITY MANAGER</b>	John Bruning
<b>CLERK/TREASURER</b>	Theresa A. Heinzl
<b>CITY ATTORNEY</b>	Michael Vogler

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Rogers City  
Rogers City, Michigan 49779

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rogers City, State of Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rogers City, State of Michigan. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements listed in the foregoing table of contents present fairly, in all material respects, the financial position of the City of Rogers City, State of Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

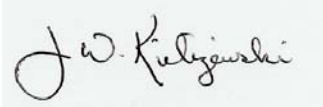
In accordance with Government Auditing Standards, I have also issued a report dated October 31, 2005 on my consideration of the City's internal control structure and its compliance with laws and regulations.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Rogers City, State of Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a

Independent Auditor's Report  
(Continued)

required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "J. W. Kuligowski". The signature is written in a cursive style with a large initial "J" and "W".

October 31, 2005  
Rogers City, Michigan

# CITY OF ROGERS CITY

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Rogers City, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ending June 30, 2005:

- The fund balance in the General Fund increased from \$410,950 to \$529,110. This increase resulted from conservative budget projections and the receipt of settlement of a tax tribunal case with a major local industry.
- State-shared revenue, the City's second largest General Fund revenue source, was reduced by \$17,977, representing a 4.5 percent decrease from the prior fiscal year. However, the \$383,226 received from the State of Michigan fell short of the original budgeted projection by \$6,649.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$529,110, or 29.7% of the total General Fund Expenditures.

### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 and compared to 2004:



# CITY OF ROGERS CITY

## Management's Discussion and Analysis (Continued)

TABLE 1

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current Assets	\$1,691,430	\$1,538,082	\$735,413	\$658,079	\$2,426,843	\$2,196,161
Non Current Assets	<u>4,765,896</u>	<u>4,937,926</u>	<u>6,643,027</u>	<u>6,748,196</u>	<u>11,408,923</u>	<u>11,335,606</u>
Total Assets	6,457,326	6,476,008	7,378,440	7,406,275	13,835,766	13,531,767
<b>Liabilities</b>						
Current Liabilities	55,093	132,666	177,774	164,916	232,867	304,055
Long-Term Liabilities	<u>206,726</u>	<u>250,000</u>	<u>714,922</u>	<u>831,326</u>	<u>921,648</u>	<u>1,081,326</u>
Total Liabilities	261,819	382,666	892,696	996,242	1,154,515	1,385,381
<b>Net Assets</b>						
Invested in Capital Assets –						
Net of related debt	4,175,361	4,305,258	5,812,563	5,287,759	9,987,924	9,242,501
Restricted	657,744	589,346	296,206	250,703	953,950	840,049
Unrestricted	<u>1,362,402</u>	<u>1,198,738</u>	<u>376,975</u>	<u>871,571</u>	<u>1,739,377</u>	<u>2,063,836</u>
Total Net Assets	<u>\$6,195,507</u>	<u>6,093,342</u>	<u>\$6,485,744</u>	<u>\$6,410,033</u>	<u>\$12,681,251</u>	<u>\$12,146,386</u>

The City's combined net assets increased approximately \$535,000, or 4 percent, from a year ago. This was expected due to the investment in capital assets that occurred during the year.

The following table shows the changes of the net assets during the current year and as compared to the prior year:

Table 2

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Net Assets - Beginning of Year (as adjusted)</b>	\$ 6,093,342	\$ 5,127,446	\$ 6,410,033	\$ 6,414,456	\$ 12,503,375	\$ 11,541,902
<b>Revenue</b>						
Program Revenue:						
Charges for Services	32,623	28,803	1,360,045	1,352,186	1,392,668	1,380,989
Operating Grants & Contrib.	391,716	1,328,401	101,389	8,800	493,105	1,337,201
General Revenue:						
Property Taxes	1,088,535	1,057,490	-	-	1,088,535	1,057,490
State-shared Revenue	383,226	415,486	-	-	383,226	415,486
Investment Earnings	31,375	22,523	10,483	5,226	41,858	27,749
Transfers & Other Revenue	<u>260,863</u>	<u>88,724</u>	<u>54,640</u>	<u>53,477</u>	<u>315,503</u>	<u>142,201</u>
Total Revenue	2,188,338	2,941,427	1,526,557	1,419,689	3,714,895	4,361,116

(Continued on next page)

# CITY OF ROGERS CITY

## Management's Discussion and Analysis (Continued)

(Continued from previous page)

<b>Program Expenses</b>						
General Government	379,149	362,043	-	-	379,149	362,043
Public Safety	500,322	462,724	-	-	500,322	462,724
Public Works	178,368	386,727	-	-	178,368	386,727
Highway & Streets	357,120	157,053	-	-	357,120	157,053
Recreation & Culture	214,929	72,058	-	-	214,929	72,058
Community Development	49,572	193,200	-	-	49,572	193,200
Interest on Long-term Debt	16,755	187	-	-	16,755	187
Other Functions	389,958	341,539	-	-	389,958	341,539
Water, Sewer, Trash, Marina	-	-	1,450,846	1,424,112	1,450,846	1,424,112
Total Program Expenses	2,086,173	1,975,531	1,450,846	1,424,112	3,537,019	3,399,643
<b>Change in Net Assets</b>	<u>102,165</u>	<u>965,896</u>	<u>75,711</u>	<u>(4,423)</u>	<u>177,876</u>	<u>961,473</u>
<b>Net Assets - End of Year</b>	<u>\$ 6,195,507</u>	<u>\$ 6,093,342</u>	<u>\$ 6,485,744</u>	<u>\$ 6,410,033</u>	<u>\$ 12,681,251</u>	<u>\$ 12,503,375</u>

### Governmental Activities

Looking at the governmental activities, it is evident that, in total, revenues and expenses are consistent between both years. This is an expected trend for a mature city such as Rogers City.

### Business-type Activities

The City's business-type activities consist of Wastewater Treatment, Water, Marina, Garbage Collection, Ambulance Building and Rogers City Housing Commission. Wastewater treatment is provided through a City-owned and operated sewage treatment plant. The City provides water to residents from three ground water wells. The Marina is owned and operated by the City. There are three General Obligation bonds for major marina reconstruction projects in 1994, 1995 and 2000. Garbage collection and recycling services are provided by an outside commercial entity leasing a City-owned building in the industrial park. In 1995 the City constructed a building, which is currently leased by the Ambulance Authority. The Housing Commission operates a 38-unit senior housing facility.

Although not required, the City prepares an unofficial budget for its business-type activities, for internal use only, in order to evaluate various expenses incurred during the year. The Wastewater Treatment Fund fell short of budgeted revenue projections by \$21,200 primarily due to lower than anticipated connection fees and sewer usage. Expenditures fell short of budget by \$36,660. Overall, the increase in the fund balance was \$19,774.

Fund balance in the Water Fund increased by \$33,900. This is primarily due to delays in expenditures related to well and building construction and purchase of meters and programs. Revenues fell short of budgeted revenue projections by \$18,900.

The Marina Fund experienced an \$114,100 decrease in fund balance. Budget projections indicated a \$20,700 shortfall due largely to the additional principle payment on the 2000 bond issue. This is expected to continue for the next six years until the 1994 bond issue is paid off.

### The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for the current year include the General Fund, Major Street Fund, Local Street Fund and Community Development Authority.

### Budgetary Highlights

Significant differences between the original and final amended budget for operating transfers in was in part due to closing out of 1987 Street Debt and Brownfield Redevelopment grant funds. Also, the increase between original and final amended budget for investment revenue was due to an increase in interest rates for certificates of deposit.

### Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$11,335,606 (net of depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, marina, vehicles and equipment.

Additional information on the City's capital assets can be found in Note 5 on pages 37-38 of this report.

Capital asset activity during the fiscal year included the finalizing of the Industrial Park Project. The final grant monies were received August 31, 2005. The project will be closed out of construction in progress into the appropriate categories during the 2005-06 fiscal year.

As of June 30, 2005, the City had total debt outstanding of \$1,037,185. Of this amount \$785,000 are general obligation bonds. The remainder of the City's debt is backed by the full faith and credit of the City.

Additional information on the City's long-term debt can be found in Note 7 on pages 39-43 of this report.

### Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- Increase in property tax value.

Management's Discussion and Analysis  
(Continued)

- Increase in property tax of 1.0708 mills for local streets and sidewalks projects
- Decrease in State Shared revenue
- Sewer rate changes: the commodity charge was increased by \$.15 per 100 cubic feet of usage.
- Water rate changes: the commodity charge was increased by \$.05 per 100 cubic feet of usage.
- Garbage collection rates adjusted for Consumer Price Index

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City office at 989-734-2191. We are also open Monday-Friday 9 am to 5 pm. Our office is located at City Hall, 193 East Michigan Avenue, Rogers City, MI 49779.

# CITY OF ROGERS CITY

## Government-wide Statement of Net Assets June 30, 2005

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash	\$ 444,477	\$ 89,225	\$ 533,702
Investments	890,137	236,186	1,126,323
Restricted Cash	149,146	296,206	445,352
Accounts Receivable	199,670	98,958	298,628
Special Assessments	-	807	807
Internal Balances	8,000	(8,000)	-
Prepaid Expenses	-	3,886	3,886
Inventory	-	10,145	10,145
Capital Assets:			
Not Depreciable	942,736	2,022,148	2,964,884
Depreciable (Net)	2,605,335	4,620,879	7,226,214
Construction in Progress	<u>1,217,825</u>	<u>-</u>	<u>1,217,825</u>
Total Net Capital Assets	4,765,896	6,643,027	11,408,923
 Total Assets	 <u>6,457,326</u>	 <u>7,370,440</u>	 <u>13,827,766</u>
<b>LIABILITIES</b>			
Accounts Payable	55,093	39,758	94,851
Security Deposits	-	9,490	9,490
Deferred Revenue	-	4,989	4,989
Long-Term Liabilities:			
Due within One Year	-	115,537	115,537
Due in more than One Year	<u>206,726</u>	<u>714,922</u>	<u>921,648</u>
 Total Liabilities	 <u>261,819</u>	 <u>884,696</u>	 <u>1,146,515</u>
<b>NET ASSETS</b>			
Investment in Capital Assets	4,175,361	5,812,563	9,987,924
Restricted Assets			
Revolving Loan	250,000	-	250,000
Restricted Assets	268,678	296,206	564,884
Unrestricted Assets	1,362,402	376,975	1,739,377
Non-Expendable Restricted	<u>139,066</u>	<u>-</u>	<u>139,066</u>
 Total Net Assets	 <u>\$ 6,195,507</u>	 <u>\$ 6,485,744</u>	 <u>\$ 12,681,251</u>

The Notes to Financial Statements are an integral part of this statement.

# CITY OF ROGERS CITY

## Government-wide Statement of Activities For the fiscal year ended June 30, 2005

Functions / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
<b>Primary Government</b>				
Government Activities:				
General Government	\$ 379,149	\$ 7,465	\$ -	\$ -
Public Safety	500,322	14,270	59,282	-
Public Works	178,368	8,928	-	-
Highways and Streets	357,120	-	318,057	-
Community & Econ. Developmt.	49,572	1,960	-	6,694
Parks and Recreation	214,929	-	7,683	-
Other Functions	389,958	-	-	-
Interest on Long-term Debt	16,755	-	-	-
Total Governmental Activities	2,086,173	32,623	385,022	6,694
Business-type Activities:				
Wastewater Treatment	373,644	388,265	-	-
Water	279,405	275,254	2,000	-
Marina	484,528	452,312	-	-
Ambulance Building	4,317	-	-	-
Housing Commission	166,612	103,338	-	99,389
Garbage Collection	142,340	140,876	-	-
Total Business-type Activities	1,450,846	1,360,045	2,000	99,389
Total Primary Government	\$ 3,537,019	\$ 1,392,668	\$ 387,022	\$ 106,083

### General Revenues

Taxes  
State-shared Revenues  
Interest  
Other Revenues  
Transfers  
Cemetery Lot Sales

Total General Revenues & Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Government-wide Statement of Activities  
For the Fiscal Year Ended June 30, 2005

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (371,684)	\$ -	\$ (371,684)
(426,770)	-	(426,770)
(169,440)	-	(169,440)
(39,063)	-	(39,063)
(40,918)	-	(40,918)
(207,246)	-	(207,246)
(389,958)	-	(389,958)
(16,755)	-	(16,755)
<u>(1,661,834)</u>	<u>-</u>	<u>(1,661,834)</u>
-	14,621	14,621
-	(2,151)	(2,151)
-	(32,216)	(32,216)
-	(4,317)	(4,317)
-	36,115	36,115
-	(1,464)	(1,464)
<u>-</u>	<u>10,588</u>	<u>10,588</u>
<u>(1,661,834)</u>	<u>10,588</u>	<u>(1,651,246)</u>
1,088,535	-	1,088,535
383,226	-	383,226
31,375	10,483	41,858
262,060	52,943	315,003
(1,697)	1,697	-
500	-	500
<u>1,763,999</u>	<u>65,123</u>	<u>1,829,122</u>
102,165	75,711	177,876
<u>6,093,342</u>	<u>6,410,033</u>	<u>12,503,375</u>
<u>\$ 6,195,507</u>	<u>\$ 6,485,744</u>	<u>\$ 12,681,251</u>

The Notes to Financial Statements are an integral part of this statement.

## CITY OF ROGERS CITY

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	Major Funds			
	General Fund	Major Street Fund	Local Street Fund	Community Development
<b>ASSETS</b>				
Cash	\$ 285,622	\$ 9,205	\$ 46,344	\$ 35,602
Investments	58,800	375,000	25,000	25,000
Restricted Cash	88,602	-	60,544	-
Accounts Receivable	46,272	25,497	6,605	29
Due From Other Funds	101,161	-	-	-
Inventory	-	-	-	-
Land Held for Sale	-	-	-	347,516
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 580,457</u>	<u>\$ 409,702</u>	<u>\$ 138,493</u>	<u>\$ 408,147</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 51,347	\$ 523	\$ 1,300	\$ -
Due to Other Funds	-	-	-	-
Long-term Liabilities	-	-	-	192,236
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>51,347</u>	<u>523</u>	<u>1,300</u>	<u>192,236</u>
<b>FUND BALANCES</b>				
Investment in Capital Assets	-	-	-	-
Restricted Assets	88,602	-	60,544	-
Unrestricted Funds	440,508	409,179	76,649	215,911
Non-Expendable Restricted	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>529,110</u>	<u>409,179</u>	<u>137,193</u>	<u>215,911</u>
Total Liabilities & Fund Balances	<u>\$ 580,457</u>	<u>\$ 409,702</u>	<u>\$ 138,493</u>	<u>\$ 408,147</u>



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GOVERNMENTAL FUNDS  
Balance Sheet  
June 30, 2005

Non-Major Governmental Funds	Total Governmental Funds
\$ 40,848	\$ 417,621
406,337	890,137
-	149,146
119,089	197,492
-	101,161
-	-
-	347,516
<u>\$ 566,274</u>	<u>\$ 2,103,073</u>
\$ -	\$ 53,170
38,161	38,161
-	192,236
<u>-</u>	<u>192,236</u>
38,161	283,567
<u>38,161</u>	<u>283,567</u>
45,279	45,279
250,000	399,146
93,768	1,236,015
139,066	139,066
<u>139,066</u>	<u>139,066</u>
528,113	1,819,506
<u>528,113</u>	<u>1,819,506</u>
<u>\$ 566,274</u>	<u>\$ 2,103,073</u>

The Notes to Financial Statements are an integral part of this statement.

## CITY OF ROGERS CITY

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### GOVERNMENTAL FUNDS Reconciliation of Fund Balances of Governmental Funds To the Statement of Net Assets

<b>Total Fund Balances for Governmental Funds</b>	<b>\$1,819,506</b>
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Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and are not reported in the funds	4,144,572
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Capital Asset Lease amounts used in governmental activities are not financial uses and are not reported in the funds	( 14,489)
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Internal Service Funds are included as part of governmental activities	<u>245,918</u>
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<b>Net Assets of Governmental Activities</b>	<b><u>\$6,195,507</u></b>
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The Notes to Financial Statements are an integral part of this statement.

# CITY OF ROGERS CITY

	Major Funds			
	General Fund	Major Street Fund	Local Street Fund	Community Development
<b>Revenues</b>				
Taxes	\$ 997,002	\$ -	\$ -	\$ 80,238
Intergovernmental	440,727	226,328	91,728	-
Licenses & Permits	1,960	-	-	-
Charges for Services	18,761	-	-	-
Fines & Forfeitures	4,437	-	-	-
Special Assessments	-	3,320	3,153	-
Investment Revenue	13,781	6,645	344	254
Miscellaneous	262,060	-	-	-
Contributions & Donations	7,683	-	-	-
Payments in Lieu of Taxes	7,159	-	-	-
Total Revenues	<u>1,753,570</u>	<u>236,293</u>	<u>95,225</u>	<u>80,492</u>
<b>Expenditures</b>				
General Government	388,119	1,000	1,000	-
Public Safety	462,234	-	-	-
Highways & Streets	-	103,624	123,227	-
Public Works	175,790	-	-	-
Community Development	41,554	-	-	21,245
Parks & Recreation	157,435	-	-	-
Other Functions	460,708	525	525	-
Capital Outlay	56,495	-	-	-
Total Expenditures	<u>1,742,335</u>	<u>105,149</u>	<u>124,752</u>	<u>21,245</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>11,235</u>	<u>131,144</u>	<u>(29,527)</u>	<u>59,247</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In	147,767	12,755	76,867	-
Operating Transfers Out	<u>(40,842)</u>	<u>(64,715)</u>	<u>(7,631)</u>	<u>(2,000)</u>
Total Other Financing Sources (Uses)	<u>106,925</u>	<u>(51,960)</u>	<u>69,236</u>	<u>(2,000)</u>
Net Changes in Fund Balance	118,160	79,184	39,709	57,247
<b>FUND BALANCE- Beginning of Year</b>	<u>410,950</u>	<u>329,995</u>	<u>97,484</u>	<u>158,664</u>
<b>FUND BALANCE - End of Year</b>	<u>\$ 529,110</u>	<u>\$ 409,179</u>	<u>\$ 137,193</u>	<u>\$ 215,911</u>

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GOVERNMENTAL FUNDS  
Statement of Revenue, Expenditures, and Changes in Fund Balances  
For the Fiscal Year Ended June 30, 2005

Non-Major Governmental Funds	Total Governmental
\$ 11,600	\$ 1,088,840
8,475	767,258
-	1,960
-	18,761
-	4,437
-	6,473
10,353	31,377
500	262,560
-	7,683
-	7,159
<u>30,928</u>	<u>2,196,508</u>
1,000	391,119
2,231	464,465
-	226,851
-	175,790
-	62,799
10,437	167,872
-	461,758
<u>5,526</u>	<u>62,021</u>
<u>19,194</u>	<u>2,012,675</u>
<u>11,734</u>	<u>183,833</u>
-	237,389
<u>(42,386)</u>	<u>(157,574)</u>
<u>(42,386)</u>	<u>79,815</u>
(30,652)	263,648
<u>558,765</u>	<u>1,555,858</u>
<u>\$ 528,113</u>	<u>\$ 1,819,506</u>

The Notes to Financial Statements are an integral part of this statement.

## CITY OF ROGERS CITY

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### GOVERNMENTAL FUNDS Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2005

<b>Net Change in Fund Balances – Total Governmental Funds</b>	<b>\$ 263,648</b>
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(193,086)
Capital Outlay	62,021

Internal Service funds are used by management to charge costs of certain activities in individual funds; the net revenue (expense) of these funds are reported within the governmental activities.

( 23,946)
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Special Assessment Receivable collections are reported as income in Governmental Funds; in accrual base accounting this income was previously recorded.

<u>( 6,472)</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$102,165</u></b>
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The Notes to Financial Statements are an integral part of this statement.

# CITY OF ROGERS CITY

## PROPRIETARY FUND Statement of Net Assets June 30, 2005

	Business-type Activities					Governmental
	Wastewater Treatment	Water Fund	Marina Fund	Non-Major Funds	Totals	Activities Internal Service
<b>ASSETS</b>						
Cash	\$ 8,264	\$ 25,381	\$ 31,840	\$ 23,740	\$ 89,225	\$ 26,856
Investments	15,000	60,000	-	161,186	236,186	-
Restricted Assets	203,514	92,692	-	-	296,206	-
Accounts Receivable	40,605	31,763	4,282	22,308	98,958	2,176
Special Assessments	420	387	-	-	807	-
Prepaid Expenses	-	-	-	3,886	3,886	-
Inventory	-	10,145	-	-	10,145	-
Net Capital Assets	258,291	645,744	4,893,832	845,160	6,643,027	273,808
<b>Total Assets</b>	<b>526,094</b>	<b>866,112</b>	<b>4,929,954</b>	<b>1,056,280</b>	<b>7,378,440</b>	<b>302,840</b>
<b>LIABILITIES</b>						
Accounts Payable	5,989	9,012	11,368	13,389	39,758	1,922
Mature Bond	15,000	-	90,000	10,537	115,537	-
Due to Other Funds	-	-	-	8,000	8,000	55,000
Special Assessments	-	-	-	-	-	-
Current Portion of Spec Assmnt	-	-	-	-	-	-
Security Deposits	5,244	3,246	1,000	-	9,490	-
Deferred Revenue	1,473	387	3,129	-	4,989	-
Long-Term Liabilities	-	-	695,000	19,922	714,922	-
<b>Total Liabilities</b>	<b>27,706</b>	<b>12,645</b>	<b>800,497</b>	<b>51,848</b>	<b>892,696</b>	<b>56,922</b>
<b>NET ASSETS</b>						
Investment in Capital Assets	243,291	645,744	4,108,827	814,701	5,812,563	273,808
Reststricted	203,514	92,692	-	-	296,206	-
Unrestricted Funds	51,583	115,031	20,630	189,731	376,975	(27,890)
<b>Total Net Assets</b>	<b>\$ 498,388</b>	<b>\$ 853,467</b>	<b>\$ 4,129,457</b>	<b>\$ 1,004,432</b>	<b>\$ 6,485,744</b>	<b>\$ 245,918</b>

The Notes to Financial Statements are an integral part of this statement.

# CITY OF ROGERS CITY

## PROPRIETARY FUNDS Statement of Revenue, Expenditures and Changes in Net Assets For the Fiscal Year Ended June 30, 2005

	Business-type Activities				Governmental Activities	
	Wastewater Treatment	Water Fund	Marina Fund	Non-Major Funds	Totals	Internal Service
<b>Operating Revenues</b>						
Product Sales	\$ 388,265	\$ 275,254	\$ 219,451	\$ 140,876	\$ 1,023,846	\$ -
Rentals	-	31,631	233,411	118,858	383,900	213,029
Total Operating Revenue	<u>388,265</u>	<u>306,885</u>	<u>452,862</u>	<u>259,734</u>	<u>1,407,746</u>	<u>213,029</u>
<b>Operating Expenditures</b>						
Personal Services	185,036	88,916	94,780	39,708	408,440	75,362
Cost of Products Sold	-	-	156,020	131,891	287,911	-
Supplies	22,830	15,814	3,532	21,453	63,629	8,239
Other Services & Charges	118,680	78,373	79,091	58,046	334,190	81,887
Depreciation	24,689	54,693	84,244	57,016	220,642	61,487
Total Operating Expenses	<u>351,235</u>	<u>237,796</u>	<u>417,667</u>	<u>308,114</u>	<u>1,314,812</u>	<u>226,975</u>
<b>Operating Income (Loss)</b>	<u>37,030</u>	<u>69,089</u>	<u>35,195</u>	<u>(48,380)</u>	<u>92,934</u>	<u>(13,946)</u>
<b>Nonoperating Revenues (Expenditures)</b>						
Special Assessment Contributions	515	487	-	-	1,002	-
Interest Earned & Other	4,182	3,108	1,282	6,150	14,722	-
Interest Expense & Other	(2,415)	-	(46,581)	(2,155)	(51,151)	-
Grants - Federal & State	-	2,000	-	99,389	101,389	-
Total Nonoperating Revenues (Expenditures)	<u>2,282</u>	<u>5,595</u>	<u>(45,299)</u>	<u>103,384</u>	<u>65,962</u>	<u>-</u>
<b>Income (Loss) Before Transfers</b>	<u>39,312</u>	<u>74,684</u>	<u>(10,104)</u>	<u>55,004</u>	<u>158,896</u>	<u>(13,946)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	-	-	1,000	-	1,000	-
Transfers Out	(19,714)	(41,470)	(20,000)	(3,000)	(84,184)	(10,000)
Total Other Financing Sources (Uses)	<u>(19,714)</u>	<u>(41,470)</u>	<u>(19,000)</u>	<u>(3,000)</u>	<u>(83,184)</u>	<u>(10,000)</u>
<b>Change in Net Assets</b>	<u>19,598</u>	<u>33,214</u>	<u>(29,104)</u>	<u>52,004</u>	<u>75,712</u>	<u>(23,946)</u>
<b>Total Net Assets - Beginning of Year</b>	<u>478,790</u>	<u>820,253</u>	<u>4,158,561</u>	<u>952,428</u>	<u>6,410,032</u>	<u>269,864</u>
<b>Total Net Assets - End of Year</b>	<u>\$ 498,388</u>	<u>\$ 853,467</u>	<u>\$ 4,129,457</u>	<u>\$ 1,004,432</u>	<u>\$ 6,485,744</u>	<u>\$ 245,918</u>

The Notes to Financial Statements are an integral part of this statement.

# CITY OF ROGERS CITY

## PROPRIETARY FUNDS Statement of Cash Flows For the Fiscal Year Ended June 30, 2005

	Business-type Activities					Governmental Activities
	Wastewater Treatment	Water Fund	Marina Fund	Non-Major Funds	Total	Internal Service
<b>Cash Flows from Operating Activities:</b>						
Cash Received from Customers	\$ 386,708	\$ 304,433	\$ 449,946	\$ 236,511	\$ 1,377,598	\$ 213,029
Cash Payments to Suppliers for Goods & Services	(141,510)	(94,526)	(236,768)	(209,658)	(682,462)	(107,302)
Cash Payments to Employees for Services	(184,346)	(86,857)	(95,318)	(39,708)	(406,229)	(74,815)
Other Operating Revenues	-	2,000	808	15,520	18,328	-
Net Cash Provided by Operating Activities	60,852	125,050	118,668	2,665	307,235	30,912
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition of Capital Assets	(6,767)	(12,772)	(471)	(93,436)	(113,446)	(6,032)
Principal Paid on Bonds	(15,000)	-	(85,000)	(10,845)	(110,845)	-
Interest Paid on Bonds	(2,416)	-	(46,305)	(2,155)	(50,876)	-
Special Assessments & Interest	515	487	-	-	1,002	-
Transfers In	-	-	1,000	-	1,000	-
Transfers (Out)	(19,714)	(41,470)	(20,000)	(3,000)	(84,184)	(10,000)
Grants Received	-	-	-	99,389	99,389	-
Net Cash Provided (Used) for Capital and Related Financing Activities	(43,382)	(53,755)	(150,776)	(10,047)	(257,960)	(16,032)
<b>Cash Flows from Investing Activities:</b>						
Interest Received	4,149	3,079	465	6,150	13,843	-
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	21,826	74,374	(31,643)	(1,232)	63,118	14,880
<b>Cash and Cash Equivalents-Beginning of Year</b>	204,952	103,699	63,478	186,158	558,287	11,976
<b>Cash and Cash Equivalents-End of Year</b>	\$ 226,778	\$ 178,073	\$ 31,835	\$ 184,926	\$ 621,405	\$ 26,856

The Notes to Financial Statements are an integral part of this statement.



# CITY OF ROGERS CITY

## PROPRIETARY FUNDS Statement of Cash Flows For the Fiscal Year Ended June 30, 2005 (Continued)

### RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

	Business-type Activities					Governmental
	Wastewater Treatment	Water Fund Fund	Marina Fund	Non-Major Funds	Total	Activities Internal Service
Operating Income (Loss)	\$ 37,030	\$ 69,089	\$ 35,195	\$ (48,380)	\$ 92,934	\$ (13,946)
Adjustments to Reconcile Operating Income						
To Net Cash Provided by Operating Activities						
Depreciation	24,689	54,693	84,244	57,016	220,642	61,487
(Increase) Decrease in Current Assets						
Accounts Receivable	(2,509)	(2,423)	(2,916)	(7,703)	(15,551)	(2,176)
Accrued Interest	(33)	(29)	8	-	(54)	-
Prepaid Expense	-	-	-	(313)	(313)	-
Inventory	-	971	-	-	971	-
Increase (Decrease) in Current Liabilities						
Accounts Payable	690	2,209	1,722	4,045	8,666	547
Other Accrued Expenses	-	-	415	-	415	-
Due to Other Funds	-	-	-	(2,000)	(2,000)	(15,000)
Security Deposits	985	540	-	-	1,525	-
Total Adjustments	23,822	55,961	83,473	51,045	214,301	44,858
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 60,852</b>	<b>\$ 125,050</b>	<b>\$ 118,668</b>	<b>\$ 2,665</b>	<b>\$ 307,235</b>	<b>\$ 30,912</b>

The Notes to Financial Statements are an integral part of this statement.

## CITY OF ROGERS CITY

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### FIDUCIARY FUNDS Statement of Net Assets June 30, 2005

	Separation Pay <u>Reserve</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>\$ 164,419</u>
<b>NET ASSETS</b>	
Held in Trust for Pension Benefits	<u>\$ 164,419</u>

The Notes to Financial Statements are an integral part of this statement.

## CITY OF ROGERS CITY

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### FIDUCIARY FUNDS Statement of Changes in Net Assets For the Fiscal Year Ended June 30, 2005

	<u>Separation Pay Reserve</u>
<b>ADDITIONS</b>	
Interfund Transfers	\$ 13,370
Investment Income - Interest	2,266
Less: Investment Expense	<u>65</u>
Net Investment Income	<u>2,201</u>
Total Additions	15,571
<b>DEDUCTIONS</b>	
Retiree Benefits	<u>-</u>
Change in Net Assets	15,571
<b>Net Assets - Beginning of Year</b>	<u>148,848</u>
<b>Net Assets - End of Year</b>	<u>\$ 164,419</u>

The Notes to Financial Statements are an integral part of this statement.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**Reporting Entity**

The City of Rogers City, County of Presque Isle, State of Michigan (the "City") was incorporated January 10, 1945, under the provisions of *Act 279, P.A. 1909*, as amended (Home Rule City Act). The City operates under a Council-Manager form of government, and provides highways and streets, sanitation, health and social services, recreation-parks, education, public improvements, planning and zoning, and general administrative services to approximately 3,650 residents.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless

of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** – The Major Roads Fund is used to account for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Street Fund** – The Local Street Fund is used to account for the resources of state gas and weight tax revenues that are restricted for use on local streets.

**Community Development Fund** – The Community Development Fund is a capital project fund that accounts for the acquisition and improvement of previous industrial sites located in a residential area.

**Industrial Park Infrastructure Fund** – The Industrial Park Infrastructure Fund is a capital project fund that accounts for the construction of water and sewer main construction as well as road, curb and gutter extensions to the industrial park.

The City reports the following major proprietary funds:

**Enterprise Funds** – Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These are comprised in turn of the:

**Wastewater Treatment Fund** – The Wastewater Treatment Fund accounts for the activities of the sewer collection system, financed primarily by a user charge for the provision of those services.

**Water Fund** – The Water Fund accounts for the activities of the water distribution system, financed primarily by a user charge for the provision of those services.

**Marina Fund** – The Marina Fund accounts for the activities of the marina system, financed primarily by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

**Internal Service Funds** – Internal Service Funds are used to account for major machinery and equipment purchases and maintenance provided to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

**Special Revenue Funds** – Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

**Debt Service Funds** – Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt principal, interest and related costs.

**Capital Projects Funds** – Capital Projects Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds, and Trust Funds). Revenues consist of interest income on investments and transfers from other funds for debt service.

**Fiduciary Funds** – Fiduciary, or Trust and Agency, Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust, Nonexpendable Trust, Pension Trust, and Agency Funds. Nonexpendable Trust and Pension Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer and marina functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

### **Property Tax Revenue**

The City assesses and collects real property taxes for the City, county, and school system. Each entity is paid its share of the taxes when collected. Uncollected real property taxes attributable to the City are recorded as assets of the General and Band Funds. Real property taxes are recognized as revenues at the time the taxes are levied.

The 2004 taxable valuation of the City totaled approximately \$62,560,108, on which ad valorem taxes levied consisted of 17.05 mills for the City's general operating purposes, and .2 mills for Band Fund. The ad valorem taxes levied raised approximately \$1,057,000 for operations (which are net of various refunds). In addition, the General Fund received various payments in lieu of taxes during the year approximating \$7,159. These amounts are recognized in the General Fund as "Payments in Lieu of Taxes".

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

### **Assets, Liabilities and Net Assets or Equity**

**Bank Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/ borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventories** – Inventories are valued at cost, on a first-in, first-out basis. These are not significant.

**Restricted Assets** – The restricted assets in the General, Water and Wastewater Treatment Funds consist of cash and cash equivalents, investments, and property tax and assessments receivable restricted to provide debt service principal, interest and future capital spending.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as: (a) office equipment, tools, machinery and equipment assets with an initial individual cost of over \$1,000 and a useful life of over one (1) year; or (b) buildings, infrastructure assets, land, land improvements, office equipment, or machinery and equipment assets with an initial individual cost of over \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

Land	Not depreciable
Land Improvements	20 years
Infrastructure	15-40 years
Buildings	50 years
Building Improvements	20 years
Machinery & Equipment	5-15 years
Office Equipment	5-10 years
Work in Progress	Determined when project is completed

**Compensated Absences (Vacation and Sick Leave)** – It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

The Separation Reserve Fund was established to provide cash for the severance payment to any employee, upon termination of his employment, of half of his accumulated sick leave. As a result of the establishment of this fund, the vested benefits are not recorded in the Long-term Debt Group of Accounts.

Approximately \$328,814 is the total potential vested liability at the present time if sick leave were to be totally used. The fund balance in the Separation Reserve Fund is \$164,419, representing the one-half of potential benefits payable in cash at termination, resulting in an underfunded position of \$165,395. A contingent



liability exists for the remaining \$165,395 in sick leave benefits that are not vested.

No unused accrued vacation time exists as of June 30, 2005.

**Long-term Obligations** – In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data** – Comparative data is not included in the City's financial statements.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

## **NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information** – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the second Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Assessment Funds, and Debt Service Funds.
6. Budgets for the General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by City Council.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the nonmajor budgets, as adopted by the City, is available at the City offices for inspection.

Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 is not known. During the current year, the budget was amended in a legally permissible manner.

The budgets have been prepared in accordance with generally accepted accounting principles for the General Fund and all Special Revenue Funds.

**Excess of Expenditures Over Appropriations in Budgeted Funds** – During the year, the City incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government			
Board of Review	\$ 1,659	\$ 1,701	\$ (42)
Recreation & Culture - Parks	151,587	157,435	(5,848)
Operating Transfers Out	40,142	40,842	(700)
Public Safety			
Police / School Resource Officer	386,476	397,787	(11,311)
Fire	60,400	64,446	(4,046)

These variances are reported in the Supplemental portion of the Financial Statements, and discussed here for continuity with the budgetary note.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five financial agencies for the deposit of local unit funds. The investment policy adopted by the City in accordance with *Public Act 196 of 1997* has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

At year-end, deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government
Cash and Cash Equivalents	\$ 1,334,614	\$ 325,411	\$ 1,660,025
Restricted Assets - Cash	149,146	296,206	445,352
Total	<u>\$ 1,483,760</u>	<u>\$ 621,617</u>	<u>\$ 2,105,377</u>

The breakdown of governmental activities as shown in the fund-based financial statements is as follows:

	Governmental Funds	Internal Service Fund	Total
Cash and Cash Equivalents	<u>\$ 1,307,758</u>	<u>\$ 26,856</u>	<u>\$ 1,334,614</u>

The breakdown of deposits for the City is as follows:

	Insured	Uninsured	Total
Independent Bank	\$ 100,000	\$ 1,222,428	\$ 1,322,428
Merrill Lynch	100,000	165,389	265,389
Huron National Bank	100,000	580,879	680,879
Petty Cash	-	1,100	1,100
Total	<u>\$ 300,000</u>	<u>\$ 1,969,796</u>	<u>\$ 2,269,796</u>

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates

each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City's investments during the year consisted of certificates of deposit and U.S. government securities. There was \$1,200,000 invested in certificates of deposit, and \$265,389 invested in U.S. government securities at June 30, 2005, of which \$1,129,189 was allocated to governmental activities, and \$336,200 to business-type activities. Investments are categorized to give an indication of the level of risk assumed by the City. The City's investments are categorized as a Risk Category 1, which would include investments that are insured or registered, or securities held by the City or its agent in the City's name.

#### **NOTE 4 – RECEIVABLES / DEFERRED REVENUE**

On the fund-based financial statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the entire deferred revenue balance was comprised mainly of special assessments, which are unavailable in the governmental funds.

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity of the City's governmental and business-type activities for the current year was as follows:

**Governmental Activities**

	Beginning Balance	Additions	Disposals & Adjustments	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 925,311	\$ 17,426	\$ -	\$ 942,736
Construction in Progress	1,212,299	5,526	-	1,217,825
Total Capital Assets Not Depreciated	2,137,609	22,952	-	2,160,561
Capital Assets Being Depreciated:				
Infrastructure	2,415,437	-	-	2,415,437
Parks & Trail Improvements	772,913	-	-	772,913
Buildings	543,617	-	-	543,617
Machinery & Equipment	1,640,623	42,563	(21,490)	1,661,696
Office Equipment	104,938	17,028	-	121,966
Total Capital Assets Being Depreciated	5,477,528	59,592	(21,490)	5,515,629
Total Capital Assets	7,615,137	82,543	(21,490)	7,676,190
Accumulated Depreciation:				
Infrastructure	(970,474)	(96,617)	-	(1,067,091)
Parks & Trail Improvements	(215,675)	(33,370)	-	(249,045)
Buildings	(223,611)	(11,053)	-	(234,664)
Machinery & Equipment	(1,197,511)	(100,054)	21,490	(1,276,075)
Office Equipment	(69,941)	(13,479)	-	(83,419)
Total Accumulated Depreciation	(2,677,212)	(254,573)	21,490	(2,910,295)
Net Capital Assets Being Depreciated	2,800,316	(194,981)	(0)	2,605,335
Net Capital Assets	\$ 4,937,925	\$ (172,029)	\$ (0)	\$ 4,765,896

Notes to Financial Statements  
(Continued)**Business-type Activities**

	Beginning Balance	Additions	Disposals & Adjustments	Ending Balance
Capital Assets Not Being Depreciated:				
Land & Land Rights	\$ 2,022,148	\$ -	\$ -	\$ 2,022,148
Construction in Progress	5,952	-	5,952	-
Total Capital Assets Not Depreciated	<u>2,028,100</u>	<u>-</u>	<u>5,952</u>	<u>2,022,148</u>
Capital Assets Being Depreciated:				
Buildings	1,930,210	99,389	-	2,029,598
Plant Equipment & Mains	6,885,630	6,767	-	6,892,397
Machinery & Equipment	261,808	15,271	-	277,079
Office Equipment	27,991	-	-	27,991
Total Capital Assets Being Depreciated	<u>9,105,639</u>	<u>121,427</u>	<u>-</u>	<u>9,227,065</u>
				-
Total Capital Assets	11,133,739	121,427	5,952	11,249,214
Accumulated Depreciation:				
Buildings	(968,596)	(63,190)	-	(1,031,786)
Plant Equipment & Mains	(3,204,168)	(146,481)	-	(3,350,649)
Machinery & Equipment	(187,883)	(9,792)	-	(197,675)
Office Equipment	<u>(24,897)</u>	<u>(1,179)</u>	<u>-</u>	<u>(26,076)</u>
Total Accumulated Depreciation	<u>(4,385,544)</u>	<u>(220,643)</u>	<u>-</u>	<u>(4,606,186)</u>
				-
Net Capital Assets Being Depreciated	<u>4,720,095</u>	<u>(99,216)</u>	<u>-</u>	<u>4,620,879</u>
Net Capital Assets	<u>\$ 6,748,195</u>	<u>\$ (99,216)</u>	<u>\$ 5,952</u>	<u>\$ 6,643,027</u>

Depreciation expense was charged to programs of the primary government as follows:

**Governmental Activities:**

General Government	\$ 17,997
Public Safety	35,858
Public Works	10,025
Community & Economic Development	2,754
Recreation and Parks	58,118
Highways and Streets	<u>129,821</u>
Total Governmental Activities	<u>\$254,573</u>

**Business-type Activities:**

Water	\$ 54,693
Wastewater Treatment	24,689
Marina	84,244
Garbage Collection	3,192
Ambulance Building	2,163
Housing Commission	<u>51,662</u>
Total Business-type Activities	<u>\$220,643</u>

**NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of inter-fund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due To/From Other Funds</b>		
General Fund	Internal Service	\$ 55,000
	Other Nonmajor Governmental funds	<u>38,161</u>
Total Governmental Funds		93,161
General Fund	Proprietary Fund	<u>8,000</u>
Total		<u>\$101,161</u>

Inter-fund balances represent routine and temporary cash flow assistance resulting from normal inter-fund activity until the amounts can be reimbursed between the funds.

**Inter-fund Transfers**

	Transfers Out									
	General Fund	Major Street Fund	Local Street Fund	Community Development	Nonmajor Governmental	Wastewater Treatment Fund	Water Fund	Marina Fund	Nonmajor Proprietary	Total
Transfers In										
General Fund	\$ -	\$ 18,490	\$ 7,631	\$ 1,000	\$ 29,632	\$ 18,014	\$ 40,000	\$ 20,000	\$ 13,000	\$147,767
Major Street Fund	-	-	-	-	12,755	-	-	-	-	12,755
Local Street Fund	30,642	46,225	-	-	-	-	-	-	-	76,867
Marina Fund	-	-	-	1,000	-	-	-	-	-	1,000
Separation Pay Reserve	10,200	-	-	-	-	1,700	1,470	-	-	13,370
Total	<u>\$ 40,842</u>	<u>\$ 64,715</u>	<u>\$ 7,631</u>	<u>\$ 2,000</u>	<u>\$ 42,387</u>	<u>\$ 19,714</u>	<u>\$ 41,470</u>	<u>\$ 20,000</u>	<u>\$ 13,000</u>	<u>\$251,759</u>

**NOTE 7 – LONG-TERM DEBT**

The City issues bonds to provide for the acquisition and construction of major capital assets. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide these resources to cover the deficiency until other resources are received.

Notes to Financial Statements  
(Continued)

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>							
Community Development loan - HNB							
Amount of issue - \$250,000	7.5% -	\$7,764 -	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 57,764</u>	<u>\$ 192,236</u>	<u>\$ 14,527</u>
Maturing through 2014	8.25%	\$50,000					
<b>Business-type Activities:</b>							
Installment Purchase Payable							
Ambulance Building							
Amount of issue - \$125,000	5.50%	\$6,800 -	\$ 41,303	\$ -	\$ 10,844	\$ 30,459	\$ 10,537
Maturing through 2008		\$11,200					
Revenue Bond							
Wastewater Treatment							
Amount of issue - \$170,000	7.08%	\$15,000	30,000	-	15,000	15,000	15,000
Maturing through 2006							
General Obligation Bonds:							
1994 G.O. Bonds							
Amount of issue - \$450,000	4.75% -	\$25,000 -	220,000	-	30,000	190,000	35,000
Maturing through 2009	5.75%	\$40,000					
1995 G.O. Bonds							
Amount of issue - \$475,000	4.40% -	\$25,000 -	210,000	-	30,000	180,000	30,000
Maturing through 2011	5.70%	\$30,000					
2000 G.O. Bonds							
Amount of issue - \$465,000	4.9% -	\$25,000 -	<u>440,000</u>	<u>-</u>	<u>25,000</u>	<u>415,000</u>	<u>25,000</u>
Maturing through 2016	5.45%	\$50,000					
Totals			<u>\$ 941,303</u>	<u>\$ -</u>	<u>\$ 110,844</u>	<u>\$ 830,459</u>	<u>\$ 115,537</u>

A brief description of the various long-term activities follows.

### Governmental Activities

The Community Development Authority borrowed \$250,000 on November 22, 2000 to finance the purchase of vacant land formerly regarded as industrial sites. All environmental testing has been completed and the sites are ready for residential development.

The terms of the loan call for semi-annual interest and principal payments, with a current rate of 7.5 percent, as follows:



<u>Pmt Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
12/30/2005	\$ 7,111	\$ 7,228	\$ 14,339
6/30/2006	7,416	6,923	14,339
12/30/2006	7,657	6,682	14,339
6/30/2007	7,980	6,359	14,339
12/30/2007	8,245	6,094	14,339
6/30/2008	8,571	5,768	14,339
12/30/2008	8,892	5,447	14,339
6/30/2009	9,239	5,100	14,339
12/30/2009	9,559	4,780	14,339
6/30/2010	9,942	4,397	14,339
Thereafter	107,624	21,137	128,761
Totals	<u>\$ 192,236</u>	<u>\$ 79,915</u>	<u>\$ 272,151</u>

**Business type Activities**Ambulance Building Installment Purchase Payable

Installment Purchase Payable is generally five to seven year installment debt used to provide funds for purchase of major capital assets. Installment purchases payable are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Ambulance Building	5.50%	<u>\$30,459</u>

Interest payable to maturity on installment purchases payable is as follows:

Ambulance Building	<u>\$ 2,975</u>
--------------------	-----------------

The debt service requirement by year for installment purchases payable is as follows:

<u>Fiscal Year Ended 6/30</u>	<u>Ambulance Building</u>
2006	\$ 10,537
2007	11,132
2008	<u>8,790</u>
Totals	<u>\$ 30,459</u>

Wastewater Treatment Fund

The City issued a Revenue Bond dated March 14, 1990 in the amount of \$170,000 to finance improvements at its City-owned and –operated Wastewater Treatment Plant.

Interest over the life of the bond averages 7.08 percent. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/06	<u>\$ 15,000</u>	<u>\$ 540</u>	<u>\$15,540</u>

#### Marina Fund – Harbor Expansion

The City issued General Obligation bonds dated September 1, 1994 in the amount of \$450,000 to finance marina expansion projects. Interest over the bond life averages 5.25%. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/1/05	\$ 35,000	\$ 9,716	\$ 44,716
11/1/06	35,000	7,812	42,812
11/1/07	40,000	5,725	45,725
11/1/08	40,000	3,450	43,450
11/1/09	<u>40,000</u>	<u>1,150</u>	<u>41,150</u>
Totals	<u>\$190,000</u>	<u>\$27,853</u>	<u>\$217,853</u>

The City issued General Obligation bonds dated May 26, 1995 in the amount of \$475,000 to finance marina expansion projects. Interest over the bond life averages 5.1%. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/06	\$ 30,000	\$ 9,810	\$ 39,810
5/1/07	30,000	8,250	38,250
5/1/08	30,000	6,660	36,660
5/1/09	30,000	5,040	35,040
5/1/10	30,000	3,390	33,390
5/1/11	<u>30,000</u>	<u>1,710</u>	<u>31,710</u>
Totals	<u>\$180,000</u>	<u>\$ 34,860</u>	<u>\$214,860</u>

The City issued General Obligation bonds dated August 10, 2000 in the amount of \$465,000 to finance marina expansion projects. Interest over the bond life averages 5.18%. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/1/05	25,000	11,045	36,045
05/1/06	-	10,420	10,420
11/1/06	25,000	10,420	35,420
05/1/07	-	9,789	9,789
11/1/07	30,000	9,789	39,789
05/1/08	-	9,024	9,024
11/1/08	30,000	9,024	39,024
05/1/09	-	8,259	8,259
11/1/09	35,000	8,259	38,259
Thereafter	<u>270,000</u>	<u>54,498</u>	<u>324,498</u>
Totals	<u>\$415,000</u>	<u>\$140,527</u>	<u>\$555,527</u>

**NOTE 8 – RESTRICTED ASSETS**

The balances of the restricted asset accounts in the business-type activities are as follows:

	Governmental Activities	Business-type Activities		
	General	Wastewater	Water	Total
Cash and Cash Equivalents	<u>\$ 149,146</u>	<u>\$ 203,514</u>	<u>\$ 92,692</u>	<u>\$ 445,352</u>

Restricted Assets in the General, Water and Wastewater Funds represent cash set aside for future capital projects.

**NOTE 9 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property loss, torts, errors and omissions, workers' compensation, and unemployment compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and pay member claims in excess of deductible amounts.

**NOTE 10 – LITIGATION AND CONTINGENT LIABILITIES**

The City is involved in one tax tribunal action, the outcome of which appears favorable. The City Attorney is not aware of any potential claims or contingent liabilities requiring disclosure.

**NOTE 11 – EMPLOYMENT RETIREMENT AND BENEFIT SYSTEMS**

**Plan Description** - The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 113 Municipal Way, Lansing, MI 48917.

The City is in an agent/multi-employer defined contribution plan with the Municipal Employees Retirement System (MERS) administered by the State of Michigan. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2004. The City's covered payroll for employees covered by MERS for the year ended December 31, 2004 was \$978,746 per the actuarial report. Data on covered versus total payroll was available in the latest actuarial evaluation.

As of December 31, 2004, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>20</u>
Active plan participants:	
Active members	28
Vested former members	<u>5</u>
Total	<u>33</u>

\*\* We were unable to separate the active members into vested and non-vested as required by GASB Statements # 5, 25 and 27.

MERS was organized pursuant to *Public Act 156 of 1851, §12a* (MSA 5.333(a); MCLA 46.12a), as amended, State of Michigan. MERS is regulated under *Public Act 427 of 1984*, the sections of which have been approved by the State Pension Commission.

General and non-union employees contribute three to six percent (3-6%) of their wages to the plan; Police Department employees contribute two point three percent (2.3%); elected officials and special employees are not required to contribute to the plan.

If a member leaves the employ of the municipality or dies without a retirement allowance or other benefit payable on their account, their accumulated contributions will be refunded to same, if living, or to their nominated beneficiary.

Benefits vest after 10 or more years of service, with rights to a deferred benefit commencing at age 60 (age 50 or 55 in certain cases).

This pension plan provides the following provisions: Normal Retirement, Deferred Retirement, Service Retirement Allowance, Disability Retirement Allowance, Non-duty Death Allowance, Duty Connected Death, and Post Retirement Adjustments.

Normal Retirement – A member may retire after reaching the age of 60 with 10 or more years of service; age 55 with 15 or more years of credited service (reduced benefit unless Benefit F55 is in effect); or upon reaching age 50 with 25 or more years of credited service (reduced benefit unless Benefit F50 is in effect).

Deferred Retirement – Termination of membership before age 60, other than by retirement or death, after 10 years of credited service. Retirement allowance begins upon application and satisfaction of the requirements of §10. The retirement allowance is computed in the same manner as a service retirement, with the application benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Service Retirement Allowance – Credited service at time of termination of membership multiplied by:

Benefit A	1% of a member's five-year final average compensation (FAC). Benefit A may not be adopted after 1984.
Benefit B	Contact MERS office for details. Benefit B may not be adopted after 1984.
Benefit C new	1.3% of FAC.
Benefit C old	Sum of 1% times the first \$4,200 of FAC, plus 1.5% times the portion of FAC over \$4,200. Benefit C Old may not be adopted after 1984.
Benefit C-1 new	1.5% of FAC.
Benefit C-1 old	Sum of 1.2% times the first \$4,200 of FAC, plus 1.7% times the portion of FAC over \$4,200. Benefit C-1 Old may not be adopted after 1984.

Benefit B-1	1.7% of FAC.
Benefit C-2	2.0% of FAC, payable until attainment of the age at which unreduced Social Security benefits are available (currently age 65 for normal retirement, gradually increasing to age 67). Upon attainment of this age, the benefit reverts to the basic Benefit A, C New, C Old, C-1 New, C-1 Old or B-1.
Benefit B-2	2.0% of FAC.
Benefit B-3	2.25% of FAC, with a maximum benefit of 80% of FAC.
Benefit B-4	2.5% of FAC, with a maximum benefit of 80% of FAC.

The retirement allowance is reduced  $\frac{1}{2}$  of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. The reduction may be partially or fully waived by adopting Benefit F55 and/or Benefit F50.

The police department is covered by Benefit B-3, which is 2.25% of FAC with a five-year average (FAC-5) and an 80% maximum.

All general and administrative employees fall under the Benefit B-4, which is funding at 2.5% of FAC with a three-year average (FAC-3) and an 80% maximum.

Disability Retirement Allowance – Total and permanent disability while employed by a participating municipality and after acquiring 10 or more years of credited service. The service requirement is waived if the disability is from service-connected causes.

The allowance is computed in the same manner as a service retirement allowance, except that the reduction for retirement before age 60 is not applied.

If disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service if the actually acquired credited service is less than 10 years.

Non-duty Connected Death – If a member or vested former member with 10 or more years of service dies before retirement, a monthly survivor allowance may be payable.

A named contingent survivor beneficiary, if any, will receive a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. The reduction for retirement before age 60 is not applied.

If there is no named beneficiary and the member leaves a spouse, the spouse will receive a survivor allowance. Payment of a retirement allowance to the surviving spouse of a deceased member commences immediately. Payment of a retirement allowance to the surviving spouse of a deceased vested former member shall not commence prior to the date the member would have first satisfied a §10 age and service requirement for an unreduced service retirement allowance. The amount of a surviving spouse's retirement allowance shall be 85% of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

If there is no named beneficiary and no retirement allowance being paid to a surviving spouse, unmarried children under the age of 21 will be paid an equal share of 50% of the deceased member's or deceased vested former member's accrued retirement allowance. The reduction for retirement before age 60 is not applied.

Duty Connected Death – A duty death allowance, computed in the same manner in all respects as a non-duty death allowance, may be payable to a spouse or children if death occurs as a result of performance of duty with a participating municipality. The credited service requirement specified in §26 shall be waived. Minimum benefit is 25% of the deceased member's FAC.

If no retirement allowance becomes payable at death, the member's accumulated contributions are paid to their beneficiary.

Post Retirement Adjustments – Benefit E-2 provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired on or after the effective date of Benefit E-2. Cumulative increases are limited to increases in the consumer price index.

The City makes annual contributions based on the annual actuarial valuations.

#### FUNDING STATUS AND PROGRESS

The amount shown below as the "pension benefit obligation" is based on a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date.

The measure is the actuarial present value of credited projected benefits and is intended to: (a) help users assess the plan's funding status of the system on a going-concern basis; (b) assess progress made in accumulating sufficient assets to pay benefits when due; and (c) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the pension benefit obligation include: (a) a rate of return on the investment of present and future assets of 8% per year compounded annually; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 5% to 4.2% per year, depending on age, attributable to seniority/merit; and (d) the assumption that benefits will not increase 2.5% per year after retirement for persons under benefits E-1 or E-2.

At December 31, 2004, the unfunded pension benefit obligation was \$1,570,894, determined as follows:

Pension Benefit Obligation:

Retirees & beneficiaries currently receiving benefits	\$3,672,718
Terminated employees not yet receiving benefits	153,567
Current employees:	
Accumulated employee contributions, including allocated investment income	575,648
Employer financed	<u>2,703,027</u>
Total pension benefit obligation	\$7,104,960
Net assets available for benefits, at cost (at market: \$5,401,909)	<u>5,534,066</u>
Unfunded Pension Benefit Obligation	<u>\$1,570,894</u>

During the year ended December 31, 2004, the plan for the City experienced a net change of \$464,736 in the pension benefit obligation. The combined change in the pension benefit obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$-0-.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The MERS' funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined using the credited projected benefits actuarial funding method with proration based on service. MERS uses



the level percentage of payroll method to amortize any unfunded liability over a period of 15 years.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

The City's contribution for the fiscal year ended June 30, 2005 was \$113,395. In addition, in compliance with GASB Statement #27, the annual required contribution (ARC) for fiscal year beginning July 1, 2005 was \$156,696.

**REQUIRED SUPPLEMENTARY INFORMATION ANALYSIS OF FUNDING  
PROGRESS FOR FISCAL YEAR 2004**

<u>Valuation Date 12/31</u>	<u>Accrued Liabilities</u>	<u>Valuation Assets</u>	<u>Funded Percent</u>	<u>Unfunded Actuarial Liability</u>	<u>UAL as % of Annual Payroll</u>
1995	\$ 3,181,320	\$ 2,937,029	92	\$ 244,291	33
1996	3,293,865	3,171,110	96	122,755	17
1997	3,626,750	3,458,213	95	168,537	22
1998	4,122,428	3,817,881	93	304,547	39
1999	4,450,087	4,341,395	98	108,692	13
2000	5,106,674	4,722,511	92	384,163	45
2001	5,536,091	5,008,506	90	527,585	59
2002	5,893,413	5,009,679	87	793,734	84
2003	6,453,195	5,347,037	83	1,106,158	116
2004	7,104,960	5,534,066	78	1,570,894	161

NOTE: Actuarial assumptions were revised for the 1997, 2000 and 2004 actuarial valuations.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funded status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

**REQUIRED SUPPLEMENTARY INFORMATION – REVENUES BY SOURCE  
AND EXPENSE TYPE**

Contributions were made in accordance with actuarially determined contribution requirements. GASB Statements # 5, 25 and 27 require 10 years of historical trend data for the Revenues by Source and Expense Type. The Revenue by Source includes the following data: Employer Contributions, Employee Contributions and Investment Income. The Expenses by Type includes the following data: Benefits, Administration Expenses and Refunds. The latest actuarial reports for these plans are for the year 2004.

**NOTE 12 – DEFERRED COMPENSATION PLAN**

There are no deferred compensation benefit plans requiring disclosure per GASB Codification §D-24.

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS**

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts and City Council resolution. Currently, six retirees are eligible. The city includes pre-Medicare retirees and their dependents in its insured health care plan, with a contribution required by the participant. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$37,430.

## **Required Supplemental Information**

(Defined by GASB Codification)

# CITY OF ROGERS CITY

## REQUIRED SUPPLEMENTAL INFORMATION GENERAL FUND Budgetary Comparison Schedule For the Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues:</b>				
Taxes				
Property Tax Levy	\$ 990,204	\$ 990,204	\$ 989,183	\$ (1,021)
Penalties & Interest on Taxes	6,000	6,250	7,465	1,215
Trailer Park Fees	354	354	354	-
Total Taxes	<u>996,558</u>	<u>996,808</u>	<u>997,002</u>	<u>194</u>
Intergovernmental				
Liquor License Fees	4,000	4,400	4,437	37
Metro Act	-	-	12,763	12,763
Revenue Sharing	389,875	386,575	383,226	(3,349)
Other State Grants	2,500	2,500		(2,500)
School Resource Officer Funding	51,721	39,454	40,301	847
Total Intergovernmental	<u>448,096</u>	<u>432,929</u>	<u>440,727</u>	<u>7,798</u>
Licenses & Permits	<u>2,700</u>	<u>2,950</u>	<u>1,960</u>	<u>(990)</u>
Charges for Services				
Fire Protection	4,000	7,500	9,833	2,333
Grave Openings	8,000	8,000	7,175	(825)
Various Equip & Supply Sales	2,150	2,350	1,753	(597)
Charges for Services	<u>14,150</u>	<u>17,850</u>	<u>18,761</u>	<u>911</u>
Fines & Forfeits				
Parking	1,500	1,000	691	(309)
Ordinances	6,000	4,700	3,746	(954)
Total Fines & Forfeits	<u>7,500</u>	<u>5,700</u>	<u>4,437</u>	<u>(1,263)</u>
Investment Revenue	<u>3,039</u>	<u>12,539</u>	<u>13,781</u>	<u>1,242</u>
Miscellaneous				
Sundry	88,400	88,400	175,855	87,455
Reimbursements - Health Insurance	36,740	31,470	33,133	1,663
Reimbursements - Materials	17,000	25,000	21,418	(3,582)
Reimbursements - Fire Equip & Supply	23,200	35,661	31,654	(4,007)
Total Miscellaneous	<u>165,340</u>	<u>180,531</u>	<u>262,060</u>	<u>81,529</u>
Contributions & Donations	<u>10,595</u>	<u>7,785</u>	<u>7,683</u>	<u>(102)</u>
Payments in Lieu of Taxes	<u>8,000</u>	<u>8,000</u>	<u>7,159</u>	<u>(841)</u>
Operating Transfers In	<u>122,331</u>	<u>148,543</u>	<u>147,767</u>	<u>(776)</u>
<b>Total Revenues</b>	<u>\$ 1,778,309</u>	<u>\$ 1,813,635</u>	<u>\$ 1,901,337</u>	<u>\$ 87,702</u>

# CITY OF ROGERS CITY

## REQUIRED SUPPLEMENTAL INFORMATION GENERAL FUND

### Budgetary Comparison Schedule

For the Fiscal Year Ended June 30, 2005

(Continued from previous page)

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures</b>				
General Government				
City Council	\$ 46,087	\$ 33,937	\$ 28,074	\$ 5,863
City Manager's Office	69,522	69,522	65,710	3,812
Accounting	77,340	80,075	78,503	1,572
Board of Review	1,823	1,659	1,701	(42)
Assessor	19,525	20,225	18,232	1,993
Clerk Treasurer	90,360	89,360	84,003	5,357
Elections	8,897	7,347	6,965	382
City Hall Buildings & Grounds	63,072	58,042	26,308	31,734
Attorney	20,200	16,400	16,108	292
Cemetery	66,849	44,793	42,194	2,599
Promotional	25,200	32,650	20,322	12,328
Total General Government	488,875	454,010	388,120	65,890
Public Safety				
Police /School Resource Officer	389,301	386,476	397,787	(11,311)
Fire	60,400	60,400	64,446	(4,046)
Total Public Safety	449,701	446,876	462,233	(15,357)
Public Works				
Department Operations	126,211	144,555	132,770	11,785
Street Lighting	38,000	38,000	37,948	52
Sanitation/Landfill	8,109	8,109	5,072	3,037
Total Public Works	172,320	190,664	175,790	14,874
Community & Economic Development				
Engineering	38,443	30,017	27,434	2,583
Planning & Zoning	32,360	20,698	14,119	6,579
Total Community & Economic Dev.	70,803	50,715	41,553	9,162
Recreation & Culture - Parks	155,797	151,587	157,435	(5,848)
Other Functions				
Insurance	25,000	25,586	25,586	-
Fringe Benefits	426,731	437,155	435,122	2,033
Total Other Functions	451,731	462,741	460,708	2,033
Capital Outlay	41,100	61,076	56,496	4,580
Operating Transfer Out	37,642	40,142	40,842	(700)
<b>Total Expenditures</b>	<b>\$ 1,867,969</b>	<b>\$ 1,857,811</b>	<b>\$ 1,783,177</b>	<b>\$ 74,634</b>

# CITY OF ROGERS CITY

## REQUIRED SUPPLEMENTAL INFORMATION SPECIAL REVENUE FUND Major Street Fund – Budgetary Comparison Schedule For the Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues:</b>				
Intergovernmental				
Gas & Weight Tax	\$ 188,441	\$ 188,441	\$ 184,901	\$ (3,540)
Trunkline Reimbursement	32,978	33,113	41,427	8,314
Total Intergovernmental	<u>221,419</u>	<u>221,554</u>	<u>226,328</u>	<u>4,774</u>
Special Assessments	<u>1,250</u>	<u>3,320</u>	<u>3,320</u>	<u>-</u>
Investment Revenue	<u>3,500</u>	<u>6,600</u>	<u>6,645</u>	<u>45</u>
Transfers In	<u>-</u>	<u>-</u>	<u>12,755</u>	<u>12,755</u>
<b>Total Revenues</b>	<u><b>\$ 226,169</b></u>	<u><b>\$ 231,474</b></u>	<u><b>\$ 249,048</b></u>	<u><b>\$ 17,574</b></u>
<b>Expenditures:</b>				
General Government	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Transportation				
Routine Maintenance	32,532	37,569	32,454	5,115
State Trunkline Maintenance	20,418	27,754	17,962	9,792
Winter Maintenance	<u>64,611</u>	<u>53,213</u>	<u>53,208</u>	<u>5</u>
Total Transportation	<u>117,561</u>	<u>118,536</u>	<u>103,624</u>	<u>14,912</u>
Other Functions - Insurance	<u>700</u>	<u>525</u>	<u>525</u>	<u>-</u>
Capital Outlay	<u>1,287</u>	<u>1,287</u>	<u>-</u>	<u>1,287</u>
Operating Transfer Out	<u>65,954</u>	<u>65,954</u>	<u>64,715</u>	<u>1,239</u>
<b>Total Expenditures</b>	<u><b>\$ 186,502</b></u>	<u><b>\$ 187,302</b></u>	<u><b>\$ 169,864</b></u>	<u><b>\$ 17,438</b></u>

# CITY OF ROGERS CITY

## REQUIRED SUPPLEMENTAL INFORMATION SPECIAL REVENUE FUND Local Street Fund – Budgetary Comparison Schedule For the Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues:</b>				
Intergovernmental				
Gas & Weight Tax	\$ 77,675	\$ 77,675	\$ 76,318	\$ (1,357)
Winter Maintenance	15,000	15,410	15,410	-
Total Intergovernmental	<u>92,675</u>	<u>93,085</u>	<u>91,728</u>	<u>(1,357)</u>
Special Assessments	<u>3,250</u>	<u>3,250</u>	<u>3,153</u>	<u>(97)</u>
Investment Revenue	<u>435</u>	<u>435</u>	<u>344</u>	<u>(91)</u>
Transfers In	<u>77,752</u>	<u>77,752</u>	<u>76,867</u>	<u>(885)</u>
<b>Total Revenues</b>	<u><u>\$ 174,112</u></u>	<u><u>\$ 174,522</u></u>	<u><u>\$ 172,092</u></u>	<u><u>\$ (2,430)</u></u>
<b>Expenditures</b>				
General Government	\$ 1,000	\$ 1,000	\$ 1,000	\$ -
Transportation				
Routine Maintenance	72,244	72,244	58,344	13,900
State Trunkline Maintenance	-	-	-	-
Winter Maintenance	<u>75,545</u>	<u>64,884</u>	<u>64,883</u>	<u>1</u>
Total Transportation	<u>147,789</u>	<u>137,128</u>	<u>123,227</u>	<u>13,901</u>
Other Functions - Insurance	<u>700</u>	<u>525</u>	<u>525</u>	<u>-</u>
Capital Outlay	<u>38,942</u>	<u>38,942</u>	<u>-</u>	<u>38,942</u>
Operating Transfer Out	<u>7,767</u>	<u>7,767</u>	<u>7,631</u>	<u>136</u>
<b>Total Expenditures</b>	<u><u>\$ 196,198</u></u>	<u><u>\$ 185,362</u></u>	<u><u>\$ 132,383</u></u>	<u><u>\$ 52,979</u></u>

## **Other Supplemental Information**



## CITY OF ROGERS CITY

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	Special Revenue Funds			
	Band	Small Cities	Act 302	Brownfield Grant
<b>ASSETS</b>				
Cash	\$ 49	\$ 14,219	\$ 905	\$ -
Investments	-	275,000	-	-
Accounts Receivable	73	53,522	-	-
Total Assets	122	342,741	905	-
<b>LIABILITIES</b>				
Due to Other Funds	-	-	-	-
Total Liabilities	-	-	-	-
<b>NET ASSETS</b>				
Investment in Capital Assets	-	-	-	-
Restricted Assets	-	250,000	-	-
Unrestricted Assets	122	92,741	905	-
Non-Expendable Restricted	-	-	-	-
Total Net Assets	\$ 122	\$ 342,741	\$ 905	\$ -

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OTHER SUPPLEMENTAL INFORMATION

NON-MAJOR FUNDS

Combining Balance Sheet

June 30, 2005

<u>Debt Service Funds</u>		<u>Capital Projects</u>	<u>Trust &amp; Agency</u>	<u>Total Nonmajor Governmental Funds</u>
<u>87 Street Debt</u>	<u>95 Street Debt</u>	<u>Industrial Park</u>	<u>Perpetual Care</u>	
\$ -	\$ -	\$ 14,785	\$ 10,890	\$ 40,848
-	-	-	131,337	406,337
-	-	65,494	-	119,089
-	-	80,279	142,227	566,274
-	-	35,000	3,161	38,161
-	-	35,000	3,161	38,161
-	-	45,279	-	45,279
-	-	-	-	250,000
-	-	-	-	93,768
-	-	-	139,066	139,066
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,279</u>	<u>\$ 139,066</u>	<u>\$ 528,113</u>

# CITY OF ROGERS CITY

	Special Revenue Funds			
	Band	Small Cities	Act 302	Brownfield Grant
<b>Revenues:</b>				
Taxes	\$ 11,595	\$ -	\$ -	\$ -
Intergovernmental	-	-	1,781	-
Investment Revenue	-	7,166	-	-
Miscellaneous	-	-	-	-
Total Revenues	11,595	7,166	1,781	-
<b>Expenditures:</b>				
General Government	-	1,000	-	-
Public Safety	-	-	2,231	-
Parks & Recreation	10,437	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	10,437	1,000	2,231	-
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	1,158	6,166	(450)	-
<b>Other Financing Sources (Uses)</b>				
Operating Transfers Out	(1,350)	(1,000)	-	(22,497)
Total Other Financing Sources (Uses)	(1,350)	(1,000)	-	(22,497)
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	(192)	5,166	(450)	(22,497)
<b>Fund Balances</b> -Beginning of Year	314	337,575	1,355	22,497
<b>Fund Balances</b> -End of Year	\$ 122	\$ 342,741	\$ 905	\$ -

OTHER SUPPLEMENTAL INFORMATION  
NON-MAJOR FUNDS  
Combining Statement of Revenue, Expenditures, and  
Changes in Fund Balance  
For the Fiscal Year Ended June 30, 2005

Debt Service Funds		Capital Projects	Trust & Agency	Total Nonmajor
87 Street Debt	95 Street Debt	Industrial Park	Perpetual Care	Governmental Funds
\$ 5	\$ -	\$ -	\$ -	\$ 11,600
-	-	6,694	-	8,475
2	24	-	3,161	10,353
-	-	-	500	500
7	24	6,694	3,661	30,928
-	-	-	-	1,000
-	-	-	-	2,231
-	-	-	-	10,437
-	-	5,526	-	5,526
-	-	5,526	-	19,194
7	24	1,168	3,661	11,734
(1,623)	(12,755)	-	(3,161)	(42,386)
(1,623)	(12,755)	-	(3,161)	(42,386)
(1,616)	(12,731)	1,168	500	(30,652)
1,616	12,731	44,111	138,566	558,765
\$ -	\$ -	\$ 45,279	\$ 139,066	\$ 528,113

October 31, 2005

**Report on Compliance with Requirements Applicable to Each Major Program and  
on Internal Control Over Compliance in Accordance with OMB Circular A-133  
(Unqualified Opinion on Compliance and No Material Weaknesses)**

Honorable City Council  
City of Rogers City  
Presque Isle County, Michigan

Compliance

I have audited the compliance of the City of Rogers City with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Rogers City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rogers City's management. My responsibility is to express an opinion on the City of Rogers City's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rogers City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Rogers City's compliance with those requirements.

In my opinion, the City of Rogers City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

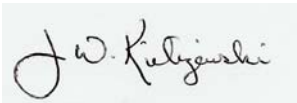
Internal Control over Compliance

The management of the City of Rogers City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Rogers City's internal control over compliance with requirements that could have a direct and material effect on a major

federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management of the City of Rogers City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "J. W. Kuligowski", is displayed on a light blue rectangular background.

October 31, 2005

**Report on Compliance and on Internal Control over Financial Reporting Based on  
an Audit of Financial Statements Performed in Accordance with *Government  
Auditing Standards (No Reportable Instances of Noncompliance and No Material  
Weaknesses)***

Honorable City Council  
City of Rogers City  
Presque Isle County, Michigan

I have audited the financial statements of the City of Rogers City, State of Michigan, as of and for the year ended June 30, 2005, and have issued my report thereon dated October 31, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

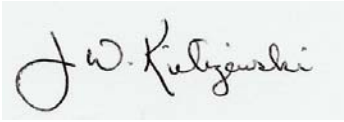
As part of obtaining reasonable assurance about whether the City of Rogers City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Rogers City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management of the City of Rogers City, and federal awarding agencies and pass-

through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "J. W. Kuligowski". The signature is written in a cursive style with a large initial "J" and "W".



# CITY OF ROGERS CITY

## Schedule of Disbursements of Federal Awards For the Fiscal Year Ended June 30, 2005

Federal Grant Grantor / Program Title	Federal CDFA #	Award Amount	Beginning Balance 7/1/2004	Receipts Recognized	Current Disbursements	Ending Balance 6/30/2005
United States Department of Commerce (EDA) Award #06-01-04668	11.300	\$ 1,070,000	\$ -	\$ 6,694	\$ 6,694	\$ -
United States Department of Health and Urban Development (CFP) Award #128-P079-501	14.228	99,388	-	99,388	99,388	-
United States Department of Health and Human Services	93.556	<u>8,753</u>	<u>-</u>	<u>8,753</u>	<u>8,753</u>	<u>-</u>
Totals		<u>\$ 1,279,951</u>	<u>\$ -</u>	<u>\$ 938,555</u>	<u>\$ 938,555</u>	<u>\$ -</u>

### NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Disbursements of Federal Funds includes the grant activity of the City of Rogers City, and is presented on the cash basis of accounting. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

## CITY OF ROGERS CITY

### Schedule of Findings and Questioned Costs For the Fiscal Year Ended June 30, 2005

#### **Section I – Summary of Auditor’s Results**

##### **Financial Statements**

Type of auditor’s report issued:	Qualified (cash basis)	
Internal control over financial reporting:		
Material weaknesses identified?	___ yes	___ <u>X</u> no
Reportable condition identified that is not considered to be material weakness?	___ yes	___ <u>X</u> no
Noncompliance material to financial statements noted?	___ yes	___ <u>X</u> no

##### **Federal Awards**

Internal control over major programs:		
Material weaknesses identified?	___ yes	___ <u>X</u> no
Reportable condition identified that is not considered to be material weakness?	___ yes	___ <u>X</u> no
Type of auditor’s report issued on compliance for major programs:		
Any audit findings disclosed that are required to be reported in accordance with §510(a) of Circular A-133?	___ yes	___ <u>X</u> no
Identification of major programs:	None	
Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>	
Auditee qualified as low-risk auditee?	___ <u>X</u> yes	___ no

#### **Section II – Financial Statement Findings**

None

#### **Section III – Federal Award Findings and Questioned Costs**

None

Schedule of Findings &  
Questioned Costs  
(Continued)

**Prior Year Activity**

The US Department of Commerce (EDA) award #06-01-04668 has been finalized as of June 30, 2005. The balance of the accounts receivable, \$54,494, which was set up in the prior accounting year, was received August 31, 2005.

October 31, 2005

Honorable Mayor and City Council  
City of Rogers City  
Rogers City, Michigan 49779

In connection with my recent examination of the City of Rogers City, State of Michigan (the "City")'s financial statements for the fiscal year ended June 30, 2005, I tested the internal accounting controls, reviewed significant accounting policies and procedures and certain financial and administrative practices for the purpose of determining the scope of my examination. Since my review of the system of internal control was made to enable me to express an opinion of the financial statement, it would not necessarily disclose all weaknesses in the system, which may exist.

The following comments and observations are related to the City's accounting and certain other practices that came to my attention during the course of the audit:

1. Public Act 621

The City is in technical violation of one part of the Uniform Accounting and Budgeting Act as disclosed in the Notes to the Financial Statements. However, in all cases, sufficient fund balances or increased revenues made the effect immaterial.

The over-expenditures were the result of not making sufficient budget adjustments for the final month of operation, improper expense classification or effects of year-end audit adjustment.

Recommendation

In all cases the budget has fulfilled its operational purpose as management has analyzed the various computer reports and any operating deficits resolved. However, to comply fully with the technical aspects of *P.A. Act 621*, it is suggested that the final review of the budget status report, currently being done in preparation for the next fiscal year's budget, result in a final amendment of the existing budget. This adjustment should anticipate accrual basis adjustments.

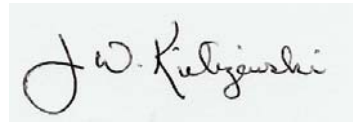
2. Acceptance by City Council of Audited Financial Statements

It is recommended that the Council accept these audited Financial Statements and recommendations by a motion similar to the following:

"Moved by \_\_\_\_\_ and seconded by \_\_\_\_\_, that the City's 2004-05 audited Financial Statements be accepted and presented and that, insofar as possible, the recommendations made by our auditor in his Letter of Comments and Recommendations be followed."

I would like to take this opportunity to thank the City staff for their outstanding cooperation in performing the audit. I will be available for review of these comments and recommendations as well as other matters.

Respectfully submitted,

A handwritten signature in black ink, reading "J.W. Kieliszewski". The signature is written in a cursive style with a large, stylized "J" and "K".

J.W. Kieliszewski